

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Otisville	County Genesee
Fiscal Year End 6-30-06	Opinion Date 11-7-06	Date Audit Report Submitted to State December 19, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

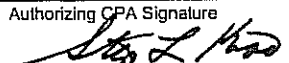
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Lewis & Knopf, PC		Telephone Number 810-238-4617		
Street Address 5206 Gateway Centre - Ste 100		City Flint	State MI	Zip 48532
Authorizing CPA Signature 		Printed Name Stephen L. Kidd, CPA		License Number 1101011609

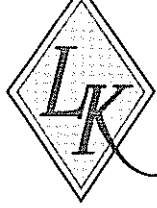
VILLAGE OF OTISVILLE

OTISVILLE, MICHIGAN

AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 2006

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

November 7, 2006

INDEPENDENT AUDITOR'S REPORT

To the Village Council
of the Village of Otisville

We have audited the accompanying financial statements of the governmental activities, the business-type activities each major fund, and the aggregate remaining fund information of Village of Otisville, as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Otisville's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities each major fund, and the aggregate remaining fund information of Village of Otisville as of June 30, 2006, and the respective changes in financial position, and cash flows where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2006 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages II - IX, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Otisville's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf P.C.
LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

-I-

VILLAGE OF OTISVILLE - OTISVILLE, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

As management of the Village of Otisville, we offer readers of the Village of Otisville's financial statements this narrative overview and analysis of the financial activities of the Village of Otisville for the fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

- A. The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$2,374,563 (net assets).
- B. The Village's total net assets increased by \$72,663 for the fiscal year ended June 30, 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Village of Otisville's basic financial statements. The Village's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary and additional information in addition to the basic financial statements themselves.

Government-Wide Financial Statements:

The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reports as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. delinquent personal property taxes).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

VILLAGE OF OTISVILLE - OTISVILLE, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Fund Financial Statements: (Continued)

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, public improvement fund and special assessment bonds all of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Village adopts an annual appropriated budget for its general fund, public improvement and special assessments bond fund. Budgetary comparison statements have been provided for the operation & maintenance fund and capital fund in the required supplementary information.

The basic governmental fund financial statements can be found on pages 3 through 4 of this report.

Proprietary Funds

The Village maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its sewer activity.

The proprietary fund financial statements can be found on pages 5 to 7 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 through 22 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information. The other supplementary information can be found on pages 23 through 35 of this report.

VILLAGE OF OTISVILLE - OTISVILLE, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2006 and 2005:

	2006			2005
	Governmental Activities	Business-Type Activities	Total	Total
Current Assets	\$179,620	\$264,324	\$443,944	\$417,405
Noncurrent Assets	73,071	2,229,899	2,302,970	2,288,127
<u>TOTAL ASSETS</u>	<u>\$252,691</u>	<u>\$2,494,223</u>	<u>\$2,746,914</u>	<u>\$2,705,532</u>
Current Liabilities	\$22,525	\$19,787	\$42,312	41,380
Noncurrent Liabilities	67,000	263,039	330,039	362,252
Total Liabilities	\$89,525	\$282,826	\$372,351	\$403,632
Net Assets				
Invested in Capital Assets – Net of Debt	(8,929)	1,949,648	1,940,719	1,894,663
Unrestricted	172,095	261,749	433,844	407,237
Total Net Assets	<u>\$163,166</u>	<u>\$2,211,397</u>	<u>\$2,374,563</u>	<u>\$2,301,900</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$252,691</u>	<u>\$2,494,223</u>	<u>\$2,746,914</u>	<u>\$2,705,532</u>

VILLAGE OF OTISVILLE - OTISVILLE, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2006 and 2005, the Village's results of operations were:

	2006			2005
	Governmental Activities	Business Type Activities	Total	Total
Revenues:				
Program Revenues:				
Charges for Services	\$67,993	\$250,639	\$318,632	\$237,879
Operating Grants	5,050	0	5,050	32,600
General Revenues:				
Property Taxes	241,396	0	241,396	225,484
State Sources	164,876	0	164,876	165,061
Investment Earnings	2,031	3,574	5,605	4,883
Other	(91,532)	93,061	1,529	3,577
Total Revenues	\$389,814	\$347,274	\$737,088	\$669,484
Functions/Program Expenses:				
DDA	4,435	0	4,435	8,472
Legislative	14,066	0	14,066	16,383
Executive	10,666	0	10,666	10,841
Election	865	0	865	94
General Administration	31,915	0	31,915	20,829
Law Enforcement	118,236	0	118,236	104,681
Building Inspector	0	0	0	200
Department of Public Works	124,920	0	124,920	83,978
Community Development	0	0	0	649
Highways, Streets and Bridges	69,271	0	69,271	89,906
Village Parks	1,153	0	1,153	12,377
Interest on Long-Term Obligations	4,627	0	4,627	5,787
Water	0	117,046	117,046	97,362
Sewer	0	167,225	167,225	157,016
Total Expenses	\$380,154	\$284,271	\$664,425	\$608,575
<u>INCREASE IN NET ASSETS</u>	\$9,660	\$63,003	\$72,663	\$60,909
<u>BEGINNING NET ASSETS</u>	153,506	2,148,394	2,301,900	2,240,991
<u>NET ASSETS - ENDING</u>	<u>\$163,166</u>	<u>\$2,211,397</u>	<u>\$2,374,563</u>	<u>\$2,301,900</u>

VILLAGE OF OTISVILLE - OTISVILLE, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

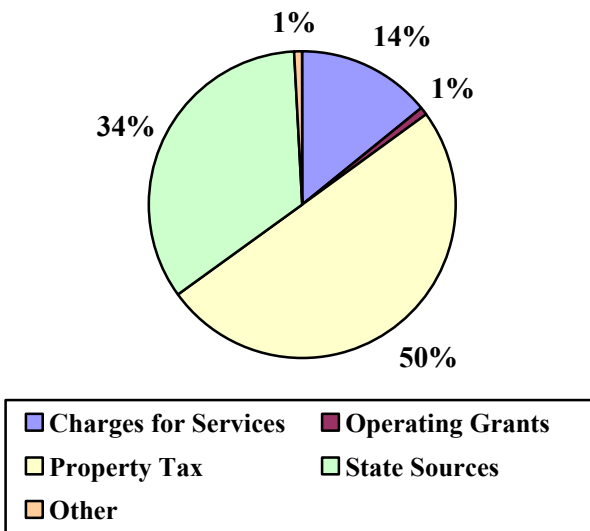
During the year ended June 30, 2006, the Village's Total Net Assets increased by \$72,663 to a total of \$2,374,563. The largest portion of the net assets are the Village's investment in capital assets. Net assets (invested in capital assets, net of related debt) at the end of the year was \$1,940,719. The Villages Unrestricted Net Assets was \$433,844 at the end of the year. The restricted Net Assets consist of the restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to pay for government services to residents.

Analysis of Results of Operations

The Village's overall revenues exceeded its expenditures by \$72,663 for the year. Revenues increased by \$67,604 from last year, primarily from charges for services and increases in property taxes. Expenses increased by \$55,850 from last year due to purchases of equipment, increases in contracted services and personnel costs.

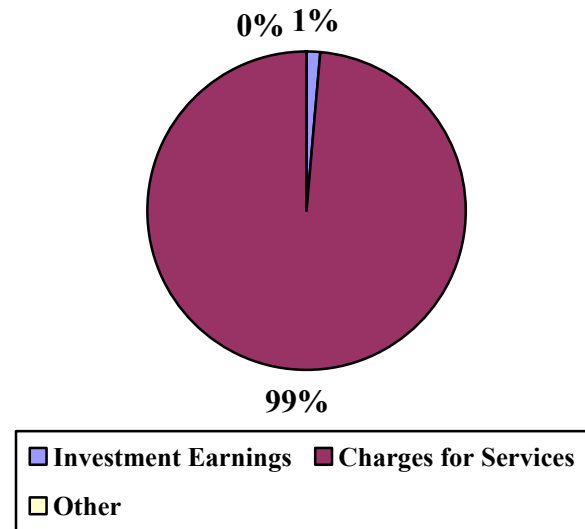
Revenues by Source – Governmental Activities

Total Revenues = \$482,851



Revenues by Source – Business-Type Activities

Total Revenues = \$254,237



FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the Village's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The Village's general fund is the chief operating fund of the Village. Unreserved fund balance for the general fund decreased by \$10,524 during the year. Revenues for the year increased by \$40,007 primarily due to increases in property taxes and equipment rental. Expenditures and other financing uses increased by \$60,772, primarily due to increases in personnel costs, equipment purchases and transfers to other funds.

VILLAGE OF OTISVILLE - OTISVILLE, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

DDA Fund

Unreserved fund balance for the DDA fund increased by \$24,541 during the year with the increase coming primarily from an increase in cash. Revenues for the year increased by \$3,597 primarily from an increase in tax collections. Expenditures and other financing uses increased by \$4,746, primarily from increases in transfers to other funds.

Major Street Fund

Unreserved fund balance for the Major Street fund increased by \$1,223 during the year with the increase coming primarily from an increase in cash. Revenues for the year increased by \$1,664 primarily from an increase in state sources. Expenditures and other financing uses increased by \$3,497, primarily from increases in equipment rental.

FINANCIAL ANALYSIS OF BUSINESS-TYPE ACTIVITIES

Enterprise Fund

Net assets for the enterprise fund increased by \$63,003 during the year with the increase coming primarily from a increase in investment in capital assets, net of related debt. Revenues for the year decreased by \$63,450 primarily due to decreases in transfers from other funds. Expenditures and other financing uses increased by \$29,893, primarily from increases in contracted services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset

At the end of fiscal year 2006, the Village had \$4,516,413 invested in land, furniture and equipment, leasehold improvements, and sewer system. Of this amount, \$2,301,022 in depreciation has been taken over the years. We currently have net book value of \$2,302,970. Total acquisitions for the year were \$93,499 and depreciation expense was \$78,626. Significant additions were the purchase of a scraper, radio equipment, iron removal plant and lift station.

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>				
Land	\$2,000	\$0	\$0	\$2,000
Land Improvements	335,000	0	0	335,000
Buildings	52,000	0	0	52,000
Equipment	236,302	17,148	0	253,450
Totals at Historical Cost	\$625,302	\$17,148	\$0	\$642,450
Less: Accumulated Depreciation				
Land Improvements	(309,564)	(1,093)	0	(310,657)
Buildings	(22,980)	(940)	0	(23,920)
Equipment	(231,102)	(3,700)	0	(234,802)
Total Accumulated Depreciation	(\$563,646)	(\$5,733)	\$0	(\$569,379)
<u>NET GOVERNMENTAL ACTIVITIES</u>	<u>\$61,656</u>	<u>\$11,415</u>	<u>\$0</u>	<u>\$73,071</u>
<u>BUSINESS - TYPE ACTIVITIES</u>				
Land	\$110,579	\$0	\$0	\$110,579
Sewer System	2,987,500	8,800	0	2,996,300
Water System	787,142	67,521	0	854,663
Less: Accumulated Depreciation	(1,658,750)	(72,893)	0	(1,731,643)
<u>NET BUSINESS - TYPE ACTIVITIES</u>	<u>\$2,226,471</u>	<u>\$3,428</u>	<u>\$0</u>	<u>\$2,229,899</u>

VILLAGE OF OTISVILLE - OTISVILLE, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Debt, Principal Payments

The Village made principal payments on bonded, long term debt obligations that reduced the amount of the Village's long term liabilities as follows:

<u>Governmental Activities:</u>	<u>Balance 7-1-05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6-30-06</u>
Bonds Payable	<u>\$96,000</u>	<u>\$0</u>	<u>\$14,000</u>	<u>\$82,000</u>
Business-Type Activities:				
Bonds Payable	<u>\$297,464</u>	<u>\$0</u>	<u>\$17,212</u>	<u>\$280,252</u>

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original & Final Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenues	\$255,642	\$255,642	\$284,758	0.00	11.39
Expenditures	<u>255,573</u>	<u>272,295</u>	<u>295,282</u>	6.54	8.44
<u>TOTAL</u>	<u>\$69</u>	<u>(\$16,653)</u>	<u>(\$10,524)</u>		

Original vs. Final Budgets

Revenues

There were no changes between original and final budgets.

Expenditures

The increase in budgets were in the following areas: legislative and department of public works.

Actual Results vs. Final Budgets

Revenues

The increase in revenue is due to higher than expected tax collections and transfers from other funds.

Expenditures

The variance between actual and final budget is an increase in expenditures in the highways, streets and sidewalks and transfers to other funds.

VILLAGE OF OTISVILLE - OTISVILLE, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

* The Village of Otisville's 2006/2007 adopted budget is as follows:

<u>REVENUE</u>	\$772,989
<u>EXPENDITURES</u>	<u>755,960</u>
<u>NET OVER BUDGET</u>	<u><u>\$17,029</u></u>

CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the Village's finances. If you have questions about this report or need additional information, contact the Business Office, Village of Otisville.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash and Cash Equivalents	\$168,412	\$242,058	\$410,470
Accounts Receivable	8,295	17,678	25,973
Due from Other Funds	1,712	0	1,712
Prepaid Expenses	1,201	4,588	5,789
Total Current Assets	<u>\$179,620</u>	<u>\$264,324</u>	<u>\$443,944</u>
<u>NON-CURRENT ASSETS</u>			
Depreciable Assets	640,450	3,875,963	4,516,413
Non-Depreciable Assets	2,000	85,579	87,579
Less: Accumulated Depreciation	<u>(569,379)</u>	<u>(1,731,643)</u>	<u>(2,301,022)</u>
Total Noncurrent Assets	<u>\$73,071</u>	<u>\$2,229,899</u>	<u>\$2,302,970</u>
<u>TOTAL ASSETS</u>	<u>\$252,691</u>	<u>\$2,494,223</u>	<u>\$2,746,914</u>
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	6,773	1,311	8,084
Due to Other Funds	0	1,264	1,264
Accrued Expenses	752	0	752
Current Portion of Long-Term Obligations	15,000	17,212	32,212
Total Current Liabilities	<u>\$22,525</u>	<u>\$19,787</u>	<u>\$42,312</u>
<u>NON-CURRENT LIABILITIES</u>			
Non-Current Portion of Long-Term Obligations	<u>67,000</u>	<u>263,039</u>	<u>330,039</u>
<u>TOTAL LIABILITIES</u>	<u>\$89,525</u>	<u>\$282,826</u>	<u>\$372,351</u>
<u>NET ASSETS</u>			
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	(8,929)	1,949,648	1,940,719
Unrestricted	<u>172,095</u>	<u>261,749</u>	<u>433,844</u>
<u>TOTAL NET ASSETS</u>	<u>\$163,166</u>	<u>\$2,211,397</u>	<u>\$2,374,563</u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges For Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
DDA	\$4,435	\$0	\$0	(\$4,435)	\$0	(\$4,435)
Legislative	14,066	0	0	(14,066)	0	(14,066)
Executive	10,666	0	0	(10,666)	0	(10,666)
Election	865	0	0	(865)	0	(865)
General Administration	31,915	4,626	0	(27,289)	0	(27,289)
Law Enforcement	118,236	0	0	(118,236)	0	(118,236)
Department of Public Works	124,920	63,117	0	(61,803)	0	(61,803)
Community Development	0	0	5,050	5,050	0	5,050
Highways, Streets and Sidewalks	69,271	0	0	(69,271)	0	(69,271)
Village Parks	1,153	250	0	(903)	0	(903)
Interest on Long-Term Obligations	4,627	0	0	(4,627)	0	(4,627)
Total Governmental Activities	\$380,154	\$67,993	\$5,050	(\$307,111)	\$0	(\$307,111)
Business-Type Activities:						
Water	117,046	107,159	0	0	(9,887)	(9,887)
Sewer	167,225	143,480	0	0	(23,745)	(23,745)
Total Business-Type Activities	\$284,271	\$250,639	\$0	\$0	(\$33,632)	(\$33,632)
<u>TOTALS</u>	<u>\$664,425</u>	<u>\$318,632</u>	<u>\$5,050</u>	<u>(\$307,111)</u>	<u>(\$33,632)</u>	<u>(\$340,743)</u>
General Revenues:						
Taxes:						
Property Taxes, Levied for General Purposes				241,396	0	241,396
State Sources				164,876	0	164,876
Investment Earnings				2,031	3,574	5,605
Miscellaneous				1,505	24	1,529
Transfers from (to) Other Funds				(93,037)	93,037	0
Total General Revenues and Transfers				\$316,771	\$96,635	\$413,406
Change in Net Assets				\$9,660	\$63,003	\$72,663
Net Assets - Beginning				153,506	2,148,394	2,301,900
<u>Net Assets - Ending</u>				<u>\$163,166</u>	<u>\$2,211,397</u>	<u>\$2,374,563</u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

	General Fund	DDA Fund	Major Street Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and Cash Equivalents	\$26,884	\$97,901	\$17,558	\$26,069	\$168,412
Accounts Receivable	518	0	3,723	4,054	8,295
Due from Other Funds	1,712	0	0	9,858	11,570
Prepaid Expenditures	1,201	0	0	0	1,201
<u>TOTAL ASSETS</u>	<u>\$30,315</u>	<u>\$97,901</u>	<u>\$21,281</u>	<u>\$39,981</u>	<u>\$189,478</u>
<u>LIABILITIES</u>					
Accounts Payable	\$6,773	\$0	\$0	\$0	\$6,773
Due to Other Funds	4,887	0	1,740	3,231	9,858
Total Liabilities	\$11,660	\$0	\$1,740	\$3,231	\$16,631
<u>FUND BALANCES</u>					
Designated	12,993	0	13,027	4,607	30,627
Unreserved	5,662	97,901	6,514	32,143	142,220
Total Fund Balances	\$18,655	\$97,901	\$19,541	\$36,750	\$172,847
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$30,315</u>	<u>\$97,901</u>	<u>\$21,281</u>	<u>\$39,981</u>	<u>\$189,478</u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2006

Total Governmental Fund Balances:	\$172,847
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$642,450 and the accumulated depreciation is \$569,379	73,071
Accrued Interest on Long-Term Debt	(752)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Bonds Payable	<u>(82,000)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>	<u>\$163,166</u>

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	DDA Fund	Major Street Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>					
Taxes	\$133,331	\$69,864	\$0	\$38,201	\$241,396
Federal Sources	5,050	0	0	0	5,050
State Sources	95,561	0	49,898	19,417	164,876
Other Sources	37,763	1,168	102	32,496	71,529
Total Revenues	<u>\$271,705</u>	<u>\$71,032</u>	<u>\$50,000</u>	<u>\$90,114</u>	<u>\$482,851</u>
<u>EXPENDITURES</u>					
Current:					
DDA	0	4,435	0	0	4,435
Legislative	14,066	0	0	0	14,066
Executive	10,666	0	0	0	10,666
Election	865	0	0	0	865
General Administration	31,915	0	0	0	31,915
Law Enforcement	118,236	0	0	0	118,236
Building Inspector	0	0	0	0	0
Department of Public Works	92,643	0	0	31,337	123,980
Community Development	0	0	0	0	0
Highways, Streets and Sidewalks	12,281	0	48,777	21,661	82,719
Village Parks	60	0	0	0	60
Debt Retirement	0	0	0	19,195	19,195
Total Expenditures	<u>\$280,732</u>	<u>\$4,435</u>	<u>\$48,777</u>	<u>\$72,193</u>	<u>\$406,137</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(\$9,027)	\$66,597	\$1,223	\$17,921	\$76,714
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers to (from) Other Funds	(1,497)	(42,056)	0	(49,484)	(93,037)
Net Change in Fund Balance	<u>(\$10,524)</u>	<u>\$24,541</u>	<u>\$1,223</u>	<u>(\$31,563)</u>	<u>(\$16,323)</u>
<u>FUND BALANCE - BEGINNING</u>	<u>29,179</u>	<u>73,360</u>	<u>18,318</u>	<u>68,313</u>	<u>189,170</u>
<u>FUND BALANCE - ENDING</u>	<u>\$18,655</u>	<u>\$97,901</u>	<u>\$19,541</u>	<u>\$36,750</u>	<u>\$172,847</u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Total net change in fund balances - governmental funds	(\$16,323)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	11,415
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	14,000
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Change in accrued interest on long-term liabilities	<u>568</u>
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<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>\$9,660</u></u>
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VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUND
AS OF JUNE 30, 2006

	<u>Enterprise</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$242,058
Accounts Receivable	17,678
Prepaid Expenses	4,588
Total Current Assets	<u>\$264,324</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets:	
Land	85,579
Sewer System	3,021,300
Water System	854,663
Less: Accumulated Depreciation	<u>(1,731,643)</u>
Total Noncurrent Assets	<u>\$2,229,899</u>
<u>TOTAL ASSETS</u>	\$2,494,223
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$1,311
Due to Other Funds	1,264
Current Portion of Long-Term Obligations	17,212
Total Current Liabilities	<u>\$19,787</u>
<u>NON-CURRENT LIABILITIES</u>	
Non-Current Portion of Long-Term Obligations	<u>263,039</u>
<u>TOTAL LIABILITIES</u>	\$282,826
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	1,949,648
Designated	216,885
Unrestricted	<u>44,864</u>
<u>TOTAL NET ASSETS</u>	<u>\$2,211,397</u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Enterprise</u>
<u>OPERATING REVENUES</u>	
Charges for Services	\$250,639
Miscellaneous Income	24
Total Operating Revenues	<u>\$250,663</u>
<u>OPERATING EXPENSES</u>	
Salaries and Wages	87,925
Fringe Benefits	36,994
Retirement	9,341
Office Expense	248
Interest Expense	8,565
Agent Fees	300
Postage	1,802
Gas and Oil	183
Operating Supplies	16,193
Chemicals	1,667
Testing Fees	4,014
Equipment Maintenance	1,467
Equipment Rental	11,889
Contracted Services	8,499
Telephone	3,033
Insurance	9,529
Lights and Heat	8,975
Depreciation	72,893
Education	754
Total Operating Expenses	<u>\$284,271</u>
Operating (Loss)	<u>(\$33,608)</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Transfers from Other Funds	93,037
Interest Revenue	3,574
Total Nonoperating Revenues (Expenses)	<u>\$96,611</u>
Change in Net Assets	<u>\$63,003</u>
<u>NET ASSETS - BEGINNING</u>	<u>2,148,394</u>
<u>NET ASSETS - ENDING</u>	<u><u>\$2,211,397</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Enterprise</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Cash Received from Service Users	\$214,798
Cash Payments for Goods and Services	(101,853)
Cash Payments to Employees	<u>(87,925)</u>
Net Cash Provided By Operating Activities	\$25,020
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Cash Payments on Bonds Payable	(17,212)
Cash Transfer from Other Funds	<u>93,039</u>
Net Cash Provided By Capital and Related Financing Activities	\$75,827
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Investment in Capital Assets	(67,521)
Interest Earned on Investments	<u>3,574</u>
Net Cash (Used In) Investing Activities	<u>(63,947)</u>
<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	\$36,900
<u>BALANCES - BEGINNING OF YEAR</u>	<u>205,158</u>
<u>BALANCES - END OF YEAR</u>	<u>\$242,058</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)</u>	
<u>By Operating Activities</u>	
Operating (Loss)	(\$33,608)
Adjustments to Reconcile Operating (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation and Amortization	72,893
(Increase) Decrease in Assets	
Accounts Receivable	509
Prepaid Expenses	(4,588)
Increase (Decrease) in Liabilities	
Accounts Payable	<u>(1,386)</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>\$33,820</u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
AS OF JUNE 30, 2006

ASSETS

Cash and Cash Equivalents	<u>\$10,066</u>
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LIABILITIES

Due to General Fund	\$448
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Due to Other Groups	<u>9,618</u>
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TOTAL LIABILITIES

<u>\$10,066</u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

<u>REVENUE</u>	
Donations and Fees	\$10,819
<u>EXPENDITURES</u>	
Purchased Services and Supplies	<u>17,277</u>
<u>CHANGE IN NET ASSETS</u>	(\$6,458)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>16,076</u>
<u>NET ASSETS - END OF YEAR</u>	<u><u>\$9,618</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>REVENUES</u>				
Taxes	\$119,429	\$121,129	\$133,331	\$12,202
Federal Sources	0	0	5,050	5,050
State Sources	100,632	100,632	95,561	(5,071)
Other Sources	35,581	33,881	37,763	3,882
Total Revenues	<u>\$255,642</u>	<u>\$255,642</u>	<u>\$271,705</u>	<u>\$16,063</u>
<u>EXPENDITURES</u>				
Legislative	9,150	11,550	14,066	(2,516)
Executive	11,179	11,179	10,666	513
Election	750	750	865	(115)
General Administration	30,436	30,436	31,915	(1,479)
Law Enforcement	112,430	112,430	118,236	(5,806)
Department of Public Works	74,978	89,300	92,643	(3,343)
Highways, Streets and Sidewalks	16,650	16,650	12,281	4,369
Village Parks	0	0	60	(60)
Total Expenditures	<u>\$255,573</u>	<u>\$272,295</u>	<u>\$280,732</u>	<u>(\$8,437)</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	\$69	(\$16,653)	(\$9,027)	\$7,626
<u>OTHER FINANCING SOURCES (USES)</u>	<u>0</u>	<u>0</u>	<u>(1,497)</u>	<u>(1,497)</u>
Net Change in Fund Balance	\$69	(\$16,653)	(\$10,524)	\$6,129
<u>FUND BALANCE - BEGINNING</u>			<u>29,179</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$18,655</u>	

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - DOWNTOWN DEVELOPMENT AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>REVENUES</u>				
Taxes	\$67,070	\$67,070	\$69,864	\$2,794
Other Sources	200	200	1,168	968
Total Revenues	\$67,270	\$67,270	\$71,032	\$3,762
<u>EXPENDITURES</u>				
DDA	23,822	23,822	4,435	19,387
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$43,448	\$43,448	\$66,597	\$23,149
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(33,500)</u>	<u>(99,812)</u>	<u>(42,056)</u>	<u>57,756</u>
Net Change in Fund Balance	\$9,948	(\$56,364)	\$24,541	\$80,905
<u>FUND BALANCE - BEGINNING</u>			<u>73,360</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$97,901</u>	

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - MAJOR STREET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
State Sources	\$51,906	\$51,906	\$49,898	(\$2,008)
Other Sources	50	50	102	52
Total Revenues	<u>\$51,956</u>	<u>\$51,956</u>	<u>\$50,000</u>	<u>(\$1,956)</u>
<u>EXPENDITURES</u>				
Highways, Streets, Bridges	<u>51,956</u>	<u>67,218</u>	<u>48,777</u>	<u>18,441</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$0	(\$15,262)	\$1,223	\$16,485
<u>FUND BALANCE - BEGINNING</u>			<u>18,318</u>	
<u>FUND BALANCE - ENDING</u>			<u><u>\$19,541</u></u>	

See accompanying notes to the basic financial statements.

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1) REPORTING ENTITY

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. The Village of Otisville's Village Council is the primary government which has oversight responsibility and control over all activities related to sanitation, public improvements, planning and zoning, and general administrative services within the Village. The Village receives funding from local, state and federal government sources and must comply with the accompanying requirements of these funding sources. However, the Village is not included in any other governmental "reporting entity" as defined by GASB pronouncements since the Village Council is a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities. As such, the Village Council has decision making authority, the authority to levy taxes and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Education services are provided to citizens through the several local school Villages which are separate governmental entities.

This report does include the Downtown Development Authority, of which the Village of Otisville has oversight responsibilities.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Village of Otisville conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the Village's overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the Village's activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The Village's basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village's major funds). The government-wide financial statements categorize primary activities as either governmental or business type.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Village's functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds of the Village are grouped into the categories governmental and proprietary.

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Village. Revenues are derived primarily from property taxes and state distributions, grants and other intergovernmental revenues.

Special Revenue Fund

The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. Major and local street funds account for the resources of state gas and weight revenues that are restricted for use on streets.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

PROPRIETARY FUND

Enterprise Fund

The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Village applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

FIDUCIARY FUNDS

These funds account for assets held by the Village in a trustee capacity or as an agent for individuals, private organizations and other governmental units.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The proprietary fund also uses the accrual basis of accounting.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The Village reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the Village receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

The Village considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

E) BAD DEBTS

The Village provides an allowance for doubtful accounts equal to the estimated losses that will be incurred in the collection of all receivables. The estimated losses are based on a review of the current status of the existing receivables.

F) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$1,000 capitalization threshold and updated for additions and retirements during the year. In accordance with the provisions of GASB 34 the Village has elected to capitalize the cost of government fund infrastructure assets after the implementation date of GASB 34. Prior acquisitions or construction costs of infrastructure assets will not be recorded.

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F) CAPITAL ASSETS (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land	N/A
Buildings and Improvements	20 – 50 Years
Furniture and Equipment	5 Years
Vehicles	5 Years
System Infrastructure	50 Years

G) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

H) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

I) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

J) BUDGETS

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Two to three months prior to the beginning of the ensuing fiscal year, the Village Council reviews a proposed operating budget which includes proposed revenues and expenditures.
- 2) Prior to the beginning of the ensuing fiscal year, the Village Council passes a general appropriations act reflecting formal budget approval in accordance with the Michigan Uniform Budget Act.
- 3) Budgets for the general and special revenue funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).
- 4) Budgeted amounts in this report are as originally adopted or as amended by the Village Council. Amendments were not material in relation to the original appropriations which were amended.

K) COMPENSATED ABSENCES

Under agreements with the Village, individual employees have a vested right to receive payments for unused sick leave under formulas and conditions specified in the agreements. As of June 30, 2006, substantially all of these benefits had been paid and are reflected in the financial statements.

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2006, the Village incurred expenditures in budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2006, the Village had no investments.

Interest rate risk. The risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Village's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Concentration of credit risk. The risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The Village did not have any investments as of June 30, 2006.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of June 30, 2006, \$119,832 of the Village's bank balance of \$275,394 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Village will do business.

Foreign currency risk. The Village is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$10,066	\$ 420,536
Investments	<u>0</u>
 TOTAL	 <u>\$ 420,536</u>

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

4) DEPOSITS AND INVESTMENTS (Continued)

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 10,066
Cash – Village Wide	410,470
Investments – Village Wide	<u>0</u>
 TOTAL	 \$ 420,536

As of June 30, 2006, the Village has not adopted an investment policy in accordance with GASB 40.

5) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>				
Land	\$2,000	\$0	\$0	\$2,000
Land Improvements	335,000	0	0	335,000
Buildings	52,000	0	0	52,000
Equipment	236,302	17,148	0	253,450
Totals at Historical Cost	\$625,302	\$17,148	\$0	\$642,450
Less: Accumulated Depreciation				
Land Improvements	(309,564)	(1,093)	0	(310,657)
Buildings	(22,980)	(940)	0	(23,920)
Equipment	(231,102)	(3,700)	0	(234,802)
Total Accumulated Depreciation	(\$563,646)	(\$5,733)	\$0	(\$569,379)
 <u>GOVERNMENTAL ACTIVITIES</u> <u>CAPITAL ASSETS - NET</u>	 \$61,656	 \$11,415	 \$0	 \$73,071

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>BUSINESS - TYPE ACTIVITIES</u>				
Land	\$110,579	\$0	\$0	\$110,579
Sewer System	2,987,500	8,800	0	2,996,300
Water System	787,142	67,521	0	854,663
Less: Accumulated Depreciation	(1,658,750)	(72,893)	0	(1,731,643)
 <u>BUSINESS - TYPE ACTIVITIES</u> <u>CAPITAL ASSETS - NET</u>	 \$2,226,471	 \$3,428	 \$0	 \$2,229,899

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

5) CAPITAL ASSETS (Continued)

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

	Governmental	Business – Type	TOTAL
Village Parks	\$ 1,093	\$ 0	\$ 1,093
Highways, Streets & Sidewalks	3,700	0	3,700
Department of Public Works	940	0	940
Sewer	0	59,750	59,750
Water	0	13,143	13,143
<u>TOTAL</u>	<u>\$ 5,733</u>	<u>\$ 72,893</u>	<u>\$ 78,626</u>

6) FUND BALANCE DESIGNATIONS

The Village Council has adopted a resolution to designated fund balances as of June 30, 2006 as follows:

<u>DESIGNATED FUND BALANCE</u>	General	Special Revenue	Enterprise
DPW Equipment Replacement	\$ 5,583	\$ 0	\$ 0
Police Equipment Replacement	2,513	0	0
Flower Funds	30	0	0
Sewer Replacement	0	0	216,885
Highway Maintenance	0	17,634	0
Sidewalk Replacement	1,550	0	0
King Estate	3,317	0	0
<u>TOTAL DESIGNATED FUND BALANCE</u>	<u>\$ 12,993</u>	<u>\$ 17,634</u>	<u>\$ 216,885</u>

7) PROPERTY TAX

The Village levies its property taxes on July 1 and collects its own property taxes until March 1st. The delinquent real property taxes of the Village are purchased by the County of Genesee, and delinquent personal property taxes continue to be collected by the Village and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the Village for these property taxes. These taxes have been recorded as revenue for the current year.

8) GENERAL LONG-TERM DEBT

A) MICHIGAN TRANSPORTATION FUND BONDS PAYABLE

The Village issued Michigan Transportation Fund Bonds dated May 1, 1996 in the aggregate amount of \$200,000. The bonds require annual principal payments and semi-annual interest payments at 5.5% per annum. The principal balance at June 30, 2006 was \$82,000.

B) 1998 WATER REVENUE BONDS PAYABLE

The Village issued water revenue bonds dated September 29, 1998 in the aggregate amount of \$375,000 for the purpose of defraying a portion of the cost of the water project. The bonds require annual principal payments and semi-annual interest payment at 2.50% per annum. The bonds mature October 1, 2018 and the principal balance at June 30, 2006 was \$220,252. The bonds are issued through the Michigan Department of Environmental Quality's Water Revolving Fund.

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

8) GENERAL LONG-TERM DEBT (Continued)

C) 1998 A WATER REVENUE BONDS PAYABLE

The Village issued water revenue bonds dated October 1, 1998 in the aggregate amount of \$95,000 for the purpose of defraying a portion of the cost of the water project. The bonds require annual principal payments and semi-annual interest payment at 4.65% per annum. The bonds mature October 1, 2017 and the principal balance at June 30, 2006 was \$60,000.

<u>JUNE 30</u>	<u>Governmental</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$15,000	\$4,098	\$17,212	\$8,027
2008	16,000	3,245	21,283	7,439
2009	16,000	2,366	21,283	6,799
2010	17,000	1,457	21,283	6,159
2011	18,000	495	21,283	5,520
2012-2016	0	0	106,415	18,006
2017-2019	0	0	71,493	2,782
<u>TOTAL</u>	<u>\$82,000</u>	<u>\$11,661</u>	<u>\$280,252</u>	<u>\$54,732</u>

The interest expenditures on long-term obligations for the year were \$13,460.

	<u>Balance</u>			<u>Balance</u>	<u>Amount Due</u>
	<u>7-1-05</u>	<u>Additions</u>	<u>Deductions</u>	<u>6-30-06</u>	<u>In One Year</u>
<u>Governmental Activities:</u>					
Bonds Payable	\$96,000	\$0	\$14,000	\$82,000	\$15,000
<u>Business-Type Activities:</u>					
Bonds Payable	\$297,464	\$0	\$17,212	\$280,252	\$17,212

9) INTERFUND BALANCES

Interfund balances at June 30, 2006 consisted of the following:

		<u>DUE FROM</u>		
<u>DUE TO</u>		<u>General</u>	<u>Special</u>	
		<u>Fund</u>	<u>Revenue</u>	<u>Total</u>
General Fund		\$0	\$4,887	\$4,887
Special Revenue		0	1,740	1,740
Water Fund		1,264	0	1,264
Fiduciary Fund		448	0	448
<u>TOTAL</u>		<u>\$1,712</u>	<u>\$6,627</u>	<u>\$8,339</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

10) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following:

TRANSFERS FROM	TRANSFERS TO				
	General Fund	Water Fund	1996 Debt	Special Revenue Fund	Total
General Fund	\$0	\$0	\$0	\$14,550	\$14,550
Special Revenue Fund	13,053	93,037	19,195	14,550	139,835
<u>TOTAL</u>	<u>\$13,053</u>	<u>\$93,037</u>	<u>\$19,195</u>	<u>\$29,100</u>	<u>\$154,385</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them (2) move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (4) reimburse expenditures or payment of interfund goods and services.

11) RETIREMENT PLAN

The Village has a defined benefit pension plan covering substantially all employees. The plan is operated by the State of Michigan's Municipal Employees Retirement System (MERS), which is an agent multiple-employer public employee retirement system (PERS). The pension plan provides retirement, survivor and disability benefits. Separate financial statements for the Village are prepared by MERS on an annual basis.

Basically, all Village employees are eligible to participate in the MERS. A basic plan member may retire at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 2 percent of a member's five year final average compensation. Final average compensation is the employee's average salary over the last 5 years of credited service. Benefits fully vest on reaching 10 years of service.

The Village's current year covered payroll and its total current year payroll for all employees amounted to \$188,613 and \$221,987, respectively. All required contributions to the plan are made by the employer.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of the projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MERS' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among PERS and employers. The MERS makes separate measurements of assets and pension benefit obligation for individual municipalities. The pension benefit obligation at December 31, 2004 (latest reporting date available) for the Village, determined through an actuarial valuation performed as of that date, was \$692,081. The benefit obligation is for vested and nonvested current employees. The Village's net assets available for benefits on that date (valued at cost) were \$658,704 leaving under funding of \$33,377. The Village made contributions of \$18,500 for the fiscal year ended June 30, 2006. The investment return rate and pay increase assumption used in making the actuarial valuation were 8% and 4.5 %, respectively. The Village funding policy is to contribute annually an amount sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Village may determine to be appropriate. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligations.

VILLAGE OF OTISVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

11) RETIREMENT PLAN (Continued)

Ten year historical trend information showing the MERS' progress in accumulating sufficient assets to pay benefits when due is presented in the December 31, 2005 comprehensive annual financial report. Three year historical trend information is as follows:

VALUATION DATE	NET ASSETS AVAILABLE FOR BENEFITS	PENSION BENEFIT OBLIGATION	PERCENT FUNDED	ASSETS IN EXCESS OF <u>PENSION BENEFIT OBLIGATION</u> AMOUNT	AS A PERCENT OF COVERED PAYROLL
12-31-03	\$ 453,289	\$ 503,089	90%	\$ (49,800)	26%
12-31-04	603,932	654,270	92%	(50,338)	28%
12-31-05	658,704	692,081	95%	(33,377)	29%

12) RISK MANAGEMENT

The Village is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The Village limits its exposure to such claims through its participation in and payments of premiums for insurance coverages. The Village management believes that this provides sufficient coverage to protect the Village from any significant adverse financial impact.

**OTHER SUPPLEMENTAL
INFORMATION**

VILLAGE OF OTISVILLE, MICHIGAN
PROPRIETARY FUND
COMBINING BALANCE SHEETS
AS OF JUNE 30, 2006

	<u>ENTERPRISE FUND</u>		
		<u>WATER FUND</u>	
	<u>Sewer Fund</u>	<u>Receiving Fund</u>	<u>Operation & Maintenance Fund</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$216,908	\$0	\$13,802
Accounts Receivable	9,058	0	8,620
Prepaid Expenses	4,588	0	0
Land	85,579	0	0
Sewer System	2,996,300	0	25,000
Water System	0	0	854,663
Accumulated Depreciation	(1,553,500)	0	(178,143)
<u>TOTAL ASSETS</u>	<u>\$1,758,933</u>	<u>\$0</u>	<u>\$723,942</u>
<u>LIABILITIES</u>			
Accounts Payable	\$0	\$0	\$1,311
Due to Other Funds	0	0	1,264
Bonds Payable	0	0	280,251
Total Liabilities	\$0	\$0	\$282,826
<u>FUND EQUITY</u>			
Retained Earnings - Reserved	216,885	0	0
Retained Earnings - Unreserved	1,542,048	0	441,116
Total Fund Equity	<u>\$1,758,933</u>	<u>\$0</u>	<u>\$441,116</u>
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$1,758,933</u>	<u>\$0</u>	<u>\$723,942</u>

ENTERPRISE FUND
WATER FUND

Bond Interest & Redemption		Surplus Fund	TOTAL WATER FUND	TOTAL AFTER INTERFUND ELIMINATIONS
1998 A Revenue Bonds	1998 Revenue Bonds			
\$3,246	\$8,102	\$0	\$25,150	\$242,058
0	0	0	8,620	17,678
0	0	0	0	4,588
0	0	0	0	85,579
0	0	0	25,000	3,021,300
0	0	0	854,663	854,663
0	0	0	(178,143)	(1,731,643)
<u>\$3,246</u>	<u>\$8,102</u>	<u>\$0</u>	<u>\$735,290</u>	<u>\$2,494,223</u>
\$0	\$0	\$0	\$1,311	\$1,311
0	0	0	1,264	1,264
0	0	0	280,251	280,251
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$282,826</u>	<u>\$282,826</u>
0	0	0	0	216,885
3,246	8,102	0	452,464	1,994,512
<u>\$3,246</u>	<u>\$8,102</u>	<u>\$0</u>	<u>\$452,464</u>	<u>\$2,211,397</u>
<u>\$3,246</u>	<u>\$8,102</u>	<u>\$0</u>	<u>\$735,290</u>	<u>\$2,494,223</u>

VILLAGE OF OTISVILLE, MICHIGAN
PROPRIETARY FUND
COMBINING STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2006

	ENTERPRISE FUND		
	WATER FUND		
	Sewer Fund	Receiving Fund	Operation & Maintenance Fund
<u>OPERATING REVENUES</u>			
Charges for Services	\$143,480	\$0	\$107,159
<u>OTHER FINANCING SOURCES</u>			
Transfer from Other Funds	0	0	84,171
Total Operating Revenues and Other Financing Sources	\$143,480	\$0	\$191,330
<u>OPERATING EXPENSES</u>			
Salaries and Wages	44,941	0	42,984
Fringe Benefits	16,012	0	20,982
Retirement	4,986	0	4,355
Office Expense	0	0	0
Interest Expense	0	0	0
Agent Fees	0	0	0
Postage	492	0	1,310
Gas and Oil	0	0	183
Operating Supplies	12,050	0	4,143
Chemicals	0	0	1,667
Testing Fees	1,525	0	2,489
Equipment Maintenance	98	0	1,369
Equipment Rental	10,357	0	1,532
Contracted Services	5,115	0	3,384
Telephone	1,956	0	1,077
Insurance	5,029	0	4,500
Lights and Heat	4,914	0	4,061
Depreciation	59,750	0	13,143
Education	0	0	754
Total Operating Expenses	\$167,225	\$0	\$107,933
Operating Income (Loss)	(\$23,745)	\$0	\$83,397
<u>NON-OPERATING REVENUES</u>			
Miscellaneous Revenue	0	0	24
Interest Revenue	3,173	0	372
Total Non-Operating Revenues	\$3,173	\$0	\$396
<u>NET INCOME (LOSS)</u>	(\$20,572)	\$0	\$83,793
<u>RETAINED EARNINGS - BEGINNING OF YEAR</u>	1,779,505	0	357,323
<u>RETAINED EARNINGS - END OF YEAR</u>	\$1,758,933	\$0	\$441,116

ENTERPRISE FUND				
WATER FUND				
Bond Interest & Redemption		Surplus Fund	TOTAL WATER FUND	TOTAL ENTERPRISE FUND
1998 A Revenue Bonds	1998 Revenue Bonds			
\$0	\$0	\$0	\$107,159	\$250,639
3,206	5,660	0	93,037	93,037
\$3,206	\$5,660	\$0	\$200,196	\$343,676
0	0	0	42,984	87,925
0	0	0	20,982	36,994
0	0	0	4,355	9,341
184	64	0	248	248
2,906	5,659	0	8,565	8,565
300	0	0	300	300
0	0	0	1,310	1,802
0	0	0	183	183
0	0	0	4,143	16,193
0	0	0	1,667	1,667
0	0	0	2,489	4,014
0	0	0	1,369	1,467
0	0	0	1,532	11,889
0	0	0	3,384	8,499
0	0	0	1,077	3,033
0	0	0	4,500	9,529
0	0	0	4,061	8,975
0	0	0	13,143	72,893
0	0	0	754	754
\$3,390	\$5,723	\$0	\$117,046	\$284,271
(\$184)	(\$63)	\$0	\$83,150	\$59,405
0	0	0	24	24
8	21		401	3,574
\$8	\$21	\$0	\$425	\$3,598
(\$176)	(\$42)	\$0	\$83,575	\$63,003
3,422	8,144	0	368,889	2,148,394
\$3,246	\$8,102	\$0	\$452,464	\$2,211,397

VILLAGE OF OTISVILLE, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

	Special Revenue Funds	Debt Service Fund	Total Other Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$24,864	\$1,205	\$26,069
Accounts Receivable	4,054	0	4,054
Due from Other Funds	9,858	0	9,858
<u>TOTAL ASSETS</u>	<u>\$38,776</u>	<u>\$1,205</u>	<u>\$39,981</u>
<u>LIABILITIES</u>			
Due to Other Funds	\$3,231	\$0	\$3,231
<u>FUND BALANCES</u>			
Reserved	4,607	0	4,607
Unreserved:			
Undesignated, Reported In:			
Special Revenue Fund	30,938	0	30,938
Debt Retirement	0	1,205	1,205
Total Fund Equity	<u>\$35,545</u>	<u>\$1,205</u>	<u>\$36,750</u>
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$38,776</u>	<u>\$1,205</u>	<u>\$39,981</u>

VILLAGE OF OTISVILLE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds	Debt Service Fund	Total Other Governmental Funds
<u>REVENUES</u>			
Tax Collections	\$38,201	\$0	\$38,201
State Sources	19,417	0	19,417
Other Sources	32,473	23	32,496
Total Revenues	<u>\$90,091</u>	<u>\$23</u>	<u>\$90,114</u>
<u>EXPENDITURES</u>			
Special Revenue	52,998	0	52,998
Debt Service			
Principal	0	14,000	14,000
Interest	0	4,895	4,895
Agent Fees	0	300	300
Total Expenditures	<u>\$52,998</u>	<u>\$19,195</u>	<u>\$72,193</u>
(Deficiency) of Revenues			
(Under) Expenditures	\$37,093	(\$19,172)	\$17,921
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers to (from) Other Funds	(68,679)	19,195	(49,484)
Net Change in Fund Balance	<u>(\$31,586)</u>	<u>\$23</u>	<u>(\$31,563)</u>
<u>NET ASSETS - BEGINNING</u>	<u>67,131</u>	<u>1,182</u>	<u>68,313</u>
<u>NET ASSETS - ENDING</u>	<u>\$35,545</u>	<u>\$1,205</u>	<u>\$36,750</u>

VILLAGE OF OTISVILLE, MICHIGAN
SPECIAL REVENUE FUND
COMBINING BALANCE SHEETS
AS OF JUNE 30, 2006

	Village Improvement Fund	Garbage Fund	Local Street	Total
<u>ASSETS</u>				
Cash and Cash Equivalents	\$4,174	\$8,108	\$12,582	\$24,864
Accounts Receivable	0	2,639	1,415	4,054
Due from Other Funds	8,118	0	1,740	9,858
<u>TOTAL ASSETS</u>	<u>\$12,292</u>	<u>\$10,747</u>	<u>\$15,737</u>	<u>\$38,776</u>
<u>LIABILITIES</u>				
Due to Other Funds	\$3,231	\$0	\$0	\$3,231
<u>FUND EQUITY</u>				
Reserved	0	0	4,607	4,607
Unreserved and Undesignated	9,061	10,747	11,130	30,938
Total Fund Equity	<u>\$9,061</u>	<u>\$10,747</u>	<u>\$15,737</u>	<u>\$35,545</u>
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$12,292</u>	<u>\$10,747</u>	<u>\$15,737</u>	<u>\$38,776</u>

VILLAGE OF OTISVILLE, MICHIGAN
SPECIAL REVENUE FUND
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

	Village Improvement Fund	Garbage Fund	Local Street	Total
<u>REVENUES</u>				
<u>Tax Collections</u>	\$38,201	\$0	\$0	\$38,201
<u>State Sources</u>	0	0	19,417	19,417
<u>Other Sources</u>				
Charges for Services	0	31,821	0	31,821
Interest	552	1	99	652
Total Other Sources	<u>\$552</u>	<u>\$31,822</u>	<u>\$99</u>	<u>\$32,473</u>
Total Revenues	<u>\$38,753</u>	<u>\$31,822</u>	<u>\$19,516</u>	<u>\$90,091</u>
<u>EXPENDITURES</u>				
<u>Garbage Collection</u>	0	31,337	0	31,337
<u>Highways, Streets and Bridges</u>				
Salaries and Wages	0	0	10,760	10,760
Fringe Benefits	0	0	6,949	6,949
Operating Supplies	0	0	13	13
Salt, Gravel and Chemicals	0	0	647	647
Contracted Services	0	0	257	257
Bank Charges	3,035	0	0	3,035
Total Highways, Streets and Bridges	<u>\$3,035</u>	<u>\$0</u>	<u>\$18,626</u>	<u>\$21,661</u>
Total Expenditures	<u>\$3,035</u>	<u>\$31,337</u>	<u>\$18,626</u>	<u>\$52,998</u>
Excess of Revenues Over (Under) Expenditures	\$35,718	\$485	\$890	\$37,093
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers to Other Funds	<u>(68,679)</u>	<u>0</u>	<u>0</u>	<u>(68,679)</u>
<u>NET CHANGE IN FUND BALANCE</u>	<u>(\$32,961)</u>	<u>\$485</u>	<u>\$890</u>	<u>(\$31,586)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$42,022</u>	<u>\$10,262</u>	<u>\$14,847</u>	<u>\$67,131</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$9,061</u>	<u>\$10,747</u>	<u>\$15,737</u>	<u>\$35,545</u>

VILLAGE OF OTISVILLE, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES
FOR THE YEAR ENDED JUNE 30, 2006

TAX COLLECTIONS

Current Property Taxes	\$132,851
Penalties and Interest on Taxes	480
Total Tax Collections	<u>\$133,331</u>

FEDERAL SOURCES

Community Development	5,050
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STATE SOURCES

Sales and Use Tax	93,897
Liquor Tax	1,664
Total State Sources	<u>\$95,561</u>

OTHER SOURCES

Equipment Rental	26,816
Building Rental	250
Charges for Services	4,480
Interest Earned	436
Fines, Fees and Permits	4,626
Miscellaneous Revenue	1,155
Total Other Sources	<u>\$37,763</u>
Total Revenues	<u>\$271,705</u>

OTHER FINANCING SOURCES

Transfer from Other Funds	<u>13,053</u>
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TOTAL REVENUES

\$284,758

VILLAGE OF OTISVILLE, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

LEGISLATIVEVillage Council

Salaries and Wages	\$1,600
Contract Services	0
Dues and Subscriptions	976
Fringe Benefits	175
Insurance	7,407
Miscellaneous	3,908
Total Legislative	<u>\$14,066</u>

EXECUTIVEVillage President

Salaries and Wages	375
Education and Training	158
Miscellaneous	273
Total Village President	<u>\$806</u>

Village Manager

Salaries	5,499
Dues and Subscriptions	476
Fringe Benefits	3,568
Miscellaneous	181
Education and Training	136
Total Village Manager	<u>\$9,860</u>
Total Executive	<u>\$10,666</u>

ELECTIONS

Salaries and Wages	392
Office Expense	83
Advertising and Printing	390
Total Elections	<u>\$865</u>

GENERAL SERVICES ADMINISTRATIONAttorney

Professional Services	6,757
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Auditor

Professional Services	2,700
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Village Clerk

Salaries and Wages	9,811
Fringe Benefits	4,630
Office Expense	440
Postage	508
Contract Services	450
Education and Training	251
Total Village Clerk	<u>\$16,090</u>

VILLAGE OF OTISVILLE, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

GENERAL SERVICES ADMINISTRATION (Continued)

Board of Review

Salaries and Wages	\$1,160
Education and Training	12
Total Board of Review	<u>\$1,172</u>

Village Treasurer

Salaries and Wages	3,678
Fringe Benefits	197
Office Expense	428
Postage	191
Contract Services	552
Education and Training	150
Total Village Treasurer	<u>\$5,196</u>
Total General Services Administration	<u>\$31,915</u>

LAW ENFORCEMENT

Salaries and Wages	66,021
Fringe Benefits	19,498
Retirement	3,829
Office Expense	200
Postage	55
Gas and Oil	3,875
Uniforms	533
Membership	632
Telephone	2,808
Education and Training	500
Automobile Maintenance	841
Equipment Maintenance	812
Insurance	12,286
Equipment	5,602
Miscellaneous Expense	744
Total Law Enforcement	<u>\$118,236</u>

VILLAGE OF OTISVILLE, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

DEPARTMENT OF PUBLIC WORKS

Salaries and Wages	\$20,335
Fringe Benefits	11,761
Office Expense	917
Postage	233
Gas and Oil	4,388
Uniforms	3,217
Operating Supplies	4,131
Equipment Maintenance	10,979
Contracted Services	4,188
Telephone	2,001
Education and Training	144
Insurance	5,779
Utilities	5,470
Miscellaneous	150
Equipment Acquisition	18,950
Total Department of Public Works	<hr/> \$92,643

HIGHWAYS, STREETS AND SIDEWALKS

<u>Street Lighting</u>	
Street Lights	12,281

VILLAGE PARKS

Operating Supplies	<hr/> 60
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TOTAL EXPENDITURE

\$280,732OTHER FINANCING USES

Transfers to Other Funds	<hr/> 14,550
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TOTAL EXPENDITURES AND OTHER FINANCING USES

\$295,282

VILLAGE OF OTISVILLE, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2006

MICHIGAN TRANSPORTATION BONDS

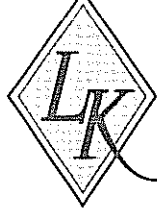
DATE OF MATURITY	PRINCIPAL REQUIREMENT	DECEMBER INTEREST REQUIREMENT	JUNE INTEREST REQUIREMENT	ANNUAL TOTAL
2006-2007	\$15,000	\$2,255	\$1,843	\$19,098
2007-2008	16,000	1,842	1,403	19,245
2008-2009	16,000	1,403	963	18,366
2009-2010	17,000	962	495	18,457
2010-2011	18,000	495	0	18,495
<u>TOTALS</u>	<u>\$82,000</u>	<u>\$6,957</u>	<u>\$4,704</u>	<u>\$93,661</u>

1998 WATER REVENUE BOND

DATE OF MATURITY	INTEREST RATE	PRINCIPAL REQUIREMENT	OCTOBER INTEREST REQUIREMENT	APRIL INTEREST REQUIREMENT	ANNUAL TOTAL
2006-2007	2.50%	\$12,212	\$2,753	\$2,600	\$17,565
2007-2008	2.50%	16,283	2,600	2,397	21,280
2008-2009	2.50%	16,283	2,397	2,193	20,873
2009-2010	2.50%	16,283	2,193	1,990	20,466
2010-2011	2.50%	16,283	1,990	1,786	20,059
2011-2012	2.50%	16,283	1,786	1,583	19,652
2012-2013	2.50%	16,283	1,583	1,379	19,245
2013-2014	2.50%	16,283	1,379	1,176	18,838
2014-2015	2.50%	16,283	1,176	972	18,431
2015-2016	2.50%	16,283	972	769	18,024
2016-2017	2.50%	20,354	769	514	21,637
2017-2018	2.50%	20,354	514	260	21,128
2018-2019	2.50%	20,785	260	0	21,045
<u>TOTALS</u>		<u>\$220,252</u>	<u>\$20,372</u>	<u>\$17,619</u>	<u>\$258,243</u>

VILLAGE OF OTISVILLE, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2006

<u>1998 A WATER REVENUE BOND</u>					
DATE OF MATURITY	INTEREST RATE	PRINCIPAL REQUIREMENT	OCTOBER INTEREST REQUIREMENT	APRIL INTEREST REQUIREMENT	ANNUAL TOTAL
2006-2007	4.65%	\$5,000	\$1,395	\$1,279	\$7,674
2007-2008	4.65%	5,000	1,279	1,163	7,442
2008-2009	4.65%	5,000	1,163	1,046	7,209
2009-2010	4.65%	5,000	1,046	930	6,976
2010-2011	4.65%	5,000	930	814	6,744
2011-2012	4.65%	5,000	814	697	6,511
2012-2013	4.65%	5,000	697	581	6,278
2013-2014	4.65%	5,000	581	465	6,046
2014-2015	4.65%	5,000	465	349	5,814
2015-2016	4.65%	5,000	349	233	5,582
2016-2017	4.65%	5,000	233	116	5,349
2017-2018	4.65%	5,000	116	0	5,116
<u>TOTALS</u>		<u>\$60,000</u>	<u>\$9,068</u>	<u>\$7,673</u>	<u>\$76,741</u>



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

November 7, 2006

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Village Council
Village of Otisville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of and for the year ended June 30, 2006, which collectively comprise the Village of Otisville's basic financial statements and have issued our report thereon dated November 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Otisville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

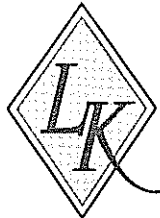
As part of obtaining reasonable assurance about whether Village of Otisville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Village of Otisville, in a separate letter dated November 7, 2006.

This report is intended for the information of the finance committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf PC
LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS



November 7, 2006

To the Council Members of
the Village of Otisville

In planning and performing our audit of the financial statements of the Village of Otisville for the year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Village of Otisville's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Listed below are the reportable conditions and item of comment and recommendation, none of which is a material weakness:

1. Budgets and Budgetary Accounting

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2006, the Village of Otisville incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

2. Bank Reconciliations

Bank reconciliations were not completed during the year. We recommend that the bank be reconciled monthly and that the Village Manager or member of the board review them.

3. Investment Policy

We would recommend that the Village adopt an investment policy in accordance with GASB 40.

4. Segregation of Duties

Due to the limited size of the Village of Otisville's accounting staff, ideal segregation of responsibilities for internal control purposes is impractical. An effective system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. We recognize that the Village of Otisville probably was not large enough to make the employment of additional persons, for the purpose of separating duties, practicable from a financial standpoint; but we are required, under our professional responsibilities, to call this situation to your attention.

5. Due to/Due from and Transfers

The due to/due from accounts along with the transfer accounts should be reconciled monthly.

6. Journal Entries

We would recommend that a member of the board review journal entries on a monthly to quarterly basis.



Village of Otisville
Page 2
November 7, 2006

FUTURE ISSUES

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Village of Otisville, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

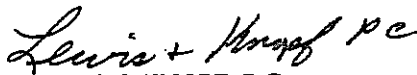
The Village may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- * Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- * Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- * Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of the Village of Otisville's management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.


LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS